Wage Bill Creation and Destruction

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The existence of wage rigidities has been viewed by some economists as the main reason for the high level of European unemployment, in contrast to the North-American situation. Wage rigidities and unemployment are both described in American studies (Mc Laughlin (1994); Card and Hyslop (1997); Kahn (1997); Altonji and Devereux (1999); Groshen and Schweitzer (1997); Bewley (1998)) and European studies (Goux (1997), Biscourp, Fourcade (2003) for France; Dessy (1999) for Italy and Europe; Smith (1999) for the UK; Fehr and Goette (1999) for Switzerland).
In this paper, we focus on firms' behaviour in order to better understand how they manage their wage bill. We intend to deal with three important questions: Are nominal and real wages downwardly rigid? Why do wages not fall in recessions? And finally, do we really care?
We use an exhaustive (all employees) matched employer-employee data source (DADS). Workers are followed from year to year (here 1994 to 1995 an 1999 to 2000). The available variables are total earnings, total hours, total days for each worker in each establishment. Using these variables we are able to decompose the changes in the total wage bill into those due to changes of workers present in both years (stayers), changes due to entering workers (entrants), and changes due to workers leaving the establishment (exiters). We are also able to decompose these changes by skill, sex and age of the workers.
Our preliminary results show: first, the total wage bill moves as that of entrants and exiters not as that of stayers. A large part of the negative difference between entrants and exiters is due to managers and engineers; second, wage bill creation and wage bill destruction rates (defined similarly to what Davis and Haltiwanger, 1992, do for the job creation and destruction rates) are about 15% each.

Keywords: wage decomposition, wage bill creation and destruction, matched employer-employee data source, firms' behaviour